

# **KHAI-MA**

## **MUNICIPALITY**



### **FINANCIAL STATEMENTS**

**30 JUNE 2019**

# KHAI-MA MUNICIPALITY

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# **KHAI-MA MUNICIPALITY**

## **FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

### **GENERAL INFORMATION**

#### **NATURE OF BUSINESS**

Khai-Ma Municipality is a local municipality performing the functions as set out in the Constitution. (Act no 105 of 1996)

#### **COUNTRY OF ORIGIN AND LEGAL FORM**

South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998)

#### **JURISDICTION**

The Khai-Ma Municipality includes the areas of Pofadder, Aggeneys, Pella, Witbank and Onseepkans.

#### **EXECUTIVE MAYOR**

PA van Heerden

#### **MUNICIPAL MANAGER**

OJ Isaacs

#### **CHIEF FINANCIAL OFFICER**

PJ van der Merwe

#### **REGISTERED OFFICE**

P.O. Box 108  
Pofadder  
8890

#### **AUDITORS**

Office of the Auditor-General (Province)

#### **PRINCIPLE BANKERS**

The Standard Bank of S.A. Ltd

# **KHAI-MA MUNICIPALITY**

## **FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

### **GENERAL INFORMATION**

#### **ATTORNEYS**

Van der Merwe/Miller Ing.

#### **RELEVANT LEGISLATION**

Basic Conditions of Employment Act (Act no 75 of 1997)  
Collective Agreements  
Division of Revenue Act  
Electricity Act (Act no 41 of 1987)  
Employment Equity Act (Act no 55 of 1998)  
Housing Act (Act no 107 of 1997)  
Infrastructure Grants  
Municipal Budget and Reporting Regulations  
Municipal Finance Management Act (Act no 56 of 2003)  
Municipal Planning and Performance Management Regulations  
Municipal Property Rates Act (Act no 6 of 2004)  
Municipal Regulations on Standard Chart of Accounts  
Municipal Structures Act (Act no 117 of 1998)  
Municipal Systems Act (Act no 32 of 2000)  
Municipal Systems Amendment Act (Act no 7 of 2011)  
SALBC Leave Regulations  
Skills Development Levies Act (Act no 9 of 1999)  
Supply Chain Management Regulations, 2005  
The Income Tax Act  
Unemployment Insurance Act (Act no 30 of 1966)  
Value Added Tax Act  
Water Services Act (Act no 108 of 1997)

#### **MEMBERS OF THE KHAI-MA MUNICIPALITY**

##### **WARD**

1  
2  
3  
4  
Proportional  
Proportional  
Proportional

##### **COUNCILLOR**

B Josop  
E Cloete  
PA van Heerden  
S Quincy  
S Brandt  
A van Wyk  
S April

# KHAI-MA MUNICIPALITY

## APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements year ended 30 June 2019, which are set out on pages 5 to 100 in terms of Section 126 (1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

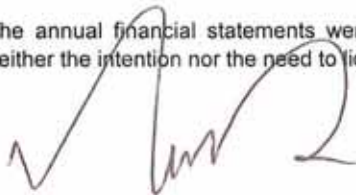
I acknowledge that I am ultimately responsible for the system of internal financial control and that the system of internal control provides reasonable assurance that the financial records can be relied on.

I have reviewed the Municipality's cash flow forecast for the year to 30 June 2020 and am satisfied that the Municipality can continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the Municipality's financial statements.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements were prepared on the going concern basis and the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.



OJ Isaacs  
Municipal Manager

31 August 2019

Date

# KHAI-MA MUNICIPALITY

## STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2019

	Notes	2019 R	2018 R
<b>ASSETS</b>			
<b>Non-Current Assets</b>		<b>117 537 717</b>	<b>109 924 852</b>
Property, Plant and Equipment	2	112 458 196	104 743 181
Investment Property	3	4 906 885	4 974 682
Intangible Assets	4	172 635	206 989
<b>Current Assets</b>		<b>10 953 119</b>	<b>9 853 439</b>
Inventory	6	941 329	1 339 531
Receivables from Exchange Transactions	7	2 338 968	2 570 546
Receivables from Non-exchange Transactions	8	1 037 764	363 401
Taxes	17	5 454 564	4 646 751
Cash and Cash Equivalents	9	1 180 495	933 210
<b>Total Assets</b>		<b>128 490 836</b>	<b>119 778 290</b>
<b>NET ASSETS AND LIABILITIES</b>			
<b>Non-Current Liabilities</b>		<b>20 477 723</b>	<b>15 330 904</b>
Long-term Borrowings	10	-	-
Non-current Provisions	11	14 159 725	8 662 988
Non-current Employee Benefits	12	6 317 998	6 667 916
<b>Current Liabilities</b>		<b>58 057 129</b>	<b>52 579 803</b>
Consumer Deposits	13	178 579	156 639
Provisions	11	12 948 628	17 102 959
Current Employee Benefits	14	2 698 612	2 435 923
Trade and Other Payables from Exchange Transactions	15	40 663 186	29 533 894
Unspent Transfers and Subsidies	16	1 464 921	3 215 896
Operating Lease Liability	5	103 203	105 804
Current Portion of Long-term Borrowings	10	-	28 688
<b>Total Liabilities</b>		<b>78 534 852</b>	<b>67 910 707</b>
<b>Net Assets</b>		<b>49 955 985</b>	<b>51 867 584</b>
Housing Development Fund	19	-	-
Revaluation Reserve	19	27 986 997	28 174 539
Accumulated Surplus/(Deficit)		21 968 987	23 693 044
<b>Total Net Assets and Liabilities</b>		<b>128 490 836</b>	<b>119 778 291</b>



# KHAI-MA MUNICIPALITY

## STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 R	2018 R
<b>REVENUE</b>			
Revenue from Non-exchange Transactions		49 234 233	52 105 035
<b>Taxation Revenue</b>		<b>5 336 443</b>	<b>5 075 376</b>
Property Rates	20	5 310 563	5 053 365
Surcharges and Taxes		25 880	22 011
<b>Transfer Revenue</b>		<b>34 986 758</b>	<b>38 017 665</b>
Government Grants and Subsidies	21	34 986 758	37 639 480
Contributed Property, Plant and Equipment		-	378 185
<b>Other Revenue</b>		<b>8 911 032</b>	<b>9 011 994</b>
Actuarial Gains	12	1 340 488	283 927
Availability Charges	22	4 164 898	3 893 670
Fines, Penalties and Forfeits		68 125	54 832
Interest Earned - Non-exchange Transactions		358 180	296 795
Operational Revenue	29	2 979 341	4 482 770
<b>Revenue from Exchange Transactions</b>		<b>16 842 403</b>	<b>16 615 640</b>
Service Charges	24	12 674 345	12 426 563
Sales of goods and rendering of services	25	45 108	26 819
Rental from Fixed Assets	26	231 876	213 825
Interest Earned - External Investments	27	266 499	659 591
Interest Earned - Exchange Transactions	28	3 406 110	2 885 264
Licences and Permits	23	41 239	33 688
Agency Services		174 197	242 808
Operational Revenue	29	3 029	127 081
<b>Total Revenue</b>		<b>66 076 637</b>	<b>68 720 675</b>
<b>EXPENDITURE</b>			
Employee related costs	30	(22 185 082)	(20 868 494)
Remuneration of Councillors	31	(2 593 917)	(2 661 775)
Contracted Services	32	(3 301 177)	(2 036 910)
Depreciation and Amortisation	33	(5 919 468)	(9 851 211)
Actuarial Losses	12	(168 759)	(19 535)
Finance Costs	34	(3 858 021)	(3 532 844)
Bulk Purchases	35	(12 745 173)	(9 197 561)
Inventory Consumed	6	(1 553 616)	(1 812 084)
Operational Costs	36	(7 668 376)	(6 182 060)
<b>Total Expenditure</b>		<b>(59 993 589)</b>	<b>(56 162 473)</b>
<b>Operating Surplus/(Deficit) for the Year</b>		<b>6 083 048</b>	<b>12 558 202</b>
Inventories: (Write-down)/Reversal of Write-down to Net Realisable Value	6	(8 000)	-
Reversal of Impairment Loss/(Impairment Loss) on Receivables	37	(7 849 756)	(8 895 501)
Gains/(Loss) on Sale of Fixed Assets	38	(136 891)	(5 736)
Water Losses	39	-	(3 196 540)
<b>NET SURPLUS/(DEFICIT) FOR THE YEAR</b>		<b>(1 911 599)</b>	<b>460 425</b>

# KHAI-MA MUNICIPALITY

## STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2019

	Housing Development Fund	Revaluation Reserve	Accumulated Surplus/ (Deficit)	Total
	R	R	R	R
<b>Balance at 1 July 2017</b>	<b>16 155</b>	<b>28 362 081</b>	<b>30 912 595</b>	<b>59 290 831</b>
Correction of Error - Note 41.8	(16 155)	-	(7 867 519)	(7 883 674)
<b>Restated balance</b>	<b>0</b>	<b>28 362 081</b>	<b>23 045 076</b>	<b>51 407 158</b>
Net Surplus/(Deficit) for the year	-	-	460 425	460 425
Net Surplus/(Deficit) previously reported	-	-	782 428	782 428
Effects of Correction of Errors - Note 41.9	-	-	(322 003)	(322 003)
Offsetting of depreciation	-	(187 542)	187 542	-
<b>Restated balance at 30 June 2018</b>	<b>0</b>	<b>28 174 539</b>	<b>23 693 043</b>	<b>51 867 583</b>
Net Surplus/(Deficit) for the year	-	-	(1 911 599)	(1 911 599)
Transfer to Housing Development Fund	-	-	-	-
Offsetting of depreciation	-	(187 542)	187 542	-
<b>Balance at 30 June 2019</b>	<b>0</b>	<b>27 986 997</b>	<b>21 968 986</b>	<b>49 955 984</b>



# KHAI-MA MUNICIPALITY

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 R	2018 R
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash receipts			
Taxation		5 537 799	3 886 190
Service Charges		12 852 078	11 109 197
Other Revenue		2 800 475	5 194 466
Government - Operating		18 873 783	17 878 843
Government - Capital		14 362 000	13 825 000
Interest		266 499	659 591
Dividends		-	-
Cash payments			
Suppliers and Employees		(38 898 923)	(41 106 856)
Finance Charges		(1 870 454)	(1 662 835)
Transfers and Grants		-	-
<b>Net Cash from Operating Activities</b>	<b>42</b>	<b>13 923 257</b>	<b>9 783 596</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of Property, Plant and Equipment		(13 646 457)	(15 416 764)
Purchase of Intangible Assets		(22 767)	(26 258)
<b>Net Cash from Investing Activities</b>		<b>(13 669 224)</b>	<b>(15 443 022)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Increase/(Decrease) in Consumer Deposits		21 941	30 164
Repayment of Borrowing		(28 688)	(25 546)
<b>Net Cash from Financing Activities</b>		<b>(6 748)</b>	<b>4 618</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>247 285</b>	<b>(5 654 807)</b>
Cash and Cash Equivalents at the beginning of the year		933 210	6 588 017
Cash and Cash Equivalents at the end of the year	<b>43</b>	<b>1 180 495</b>	<b>933 210</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>247 285</b>	<b>(5 654 807)</b>

**KHAI-MA MUNICIPALITY**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2019**

Notes	Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final Adjustment Budget	Shifting of Funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Council approved by-law)	Final Budget	Actual Outcome 2019	Actual Outcome as % of Final Budget
	R	R	R	R	R	R	R	%
<b>ASSETS</b>								
<b>Current Assets</b>								
Cash	823 163	(406 399)	416 764	-	-	416 764	244 892	-41.24%
Call Investment Deposits	400 000	-	400 000	-	-	400 000	935 603	133.90%
Consumer Debtors	11 337 039	(9 000 000)	2 337 039	-	-	2 337 039	2 452 143	4.93%
Other Debtors	1 123 613	-	1 123 613	-	-	1 123 613	6 379 153	467.74%
Current Portion of long-term receivables	-	-	-	-	-	-	-	-
Inventory	528 878	-	528 878	-	-	528 878	941 329	77.99%
<b>Total Current Assets</b>	<b>14 212 693</b>	<b>(9 406 399)</b>	<b>4 806 294</b>	<b>-</b>	<b>-</b>	<b>4 806 294</b>	<b>10 953 119</b>	<b>127.89%</b>
<b>Non-Current Assets</b>								
Long-term Receivables	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-
Investment Property	1 279 359	-	1 279 359	-	-	1 279 359	4 906 885	283.54%
Investment in Associates	-	-	-	-	-	-	-	-
Property, Plant and Equipment	161 855 451	10 715 441	172 570 892	-	-	172 570 892	112 458 198	-34.83%
Agricultural Assets	-	-	-	-	-	-	-	-
Biological Assets	-	-	-	-	-	-	-	-
Intangible Assets	5 316	-	5 316	-	-	5 316	172 635	3147.47%
Other Non-Current Assets	-	-	-	-	-	-	-	-
<b>Total Non-Current Assets</b>	<b>163 140 126</b>	<b>10 715 441</b>	<b>173 855 567</b>	<b>-</b>	<b>-</b>	<b>173 855 567</b>	<b>117 537 717</b>	<b>-32.39%</b>
<b>TOTAL ASSETS</b>	<b>177 352 819</b>	<b>1 309 042</b>	<b>178 661 861</b>	<b>-</b>	<b>-</b>	<b>178 661 861</b>	<b>128 490 836</b>	<b>-28.08%</b>
<b>LIABILITIES</b>								
<b>Current Liabilities</b>								
Bank Overdraft	-	-	-	-	-	-	-	-
Borrowing	-	-	-	-	-	-	-	-
Consumer Deposits	131 681	-	131 681	-	-	131 681	178 579	35.62%
Trade and Other Payables	24 148 919	(21 735 763)	2 413 156	-	-	2 413 156	44 929 922	1761.87%
Provisions	2 413 156	26 235 763	28 648 919	-	-	28 648 919	12 948 628	-54.80%
<b>Total Current Liabilities</b>	<b>26 693 756</b>	<b>4 500 000</b>	<b>31 193 756</b>	<b>-</b>	<b>-</b>	<b>31 193 756</b>	<b>58 057 129</b>	<b>86.12%</b>
<b>Non-Current Liabilities</b>								
Borrowing	-	-	-	-	-	-	-	-
Provisions	18 736 843	(66 253)	18 670 590	-	-	18 670 590	20 477 723	9.68%
<b>Total Non-Current Liabilities</b>	<b>18 736 843</b>	<b>(66 253)</b>	<b>18 670 590</b>	<b>-</b>	<b>-</b>	<b>18 670 590</b>	<b>20 477 723</b>	<b>9.68%</b>
<b>TOTAL LIABILITIES</b>	<b>45 430 599</b>	<b>4 433 747</b>	<b>49 864 346</b>	<b>-</b>	<b>-</b>	<b>49 864 346</b>	<b>78 534 852</b>	<b>57.50%</b>
<b>NET ASSETS</b>								
Accumulated Surplus/(Deficit)	103 769 483	(3 124 705)	100 644 778	-	-	100 644 778	21 968 987	-78.17%
Reserves	28 152 737	-	28 152 737	-	-	28 152 737	27 986 997	-0.59%
<b>TOTAL NET ASSETS</b>	<b>131 922 220</b>	<b>(3 124 705)</b>	<b>128 797 515</b>	<b>-</b>	<b>-</b>	<b>128 797 515</b>	<b>49 955 985</b>	<b>-61.21%</b>

**KHALMA MUNICIPALITY**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019**

Notes	Original Budget	Budget Adjustments (i.e. s28 and s31 of the MFMA)	Final Adjustment Budget	Shifting of Funds (i.e. s31 of the MFMA)	Virement (i.e. Council approved by-law)	Final Budget	Actual Outcome	Actual Outcome as % of Final Budget
	R	R	R	R	R	R	2019 R	%
<b>REVENUE</b>								
Property Rates	5 065 730	204 369	5 270 099	-	-	5 270 099	5 310 563	0.77%
Service Charges - Electricity Revenue	9 015 640	(476 000)	8 539 640	-	-	8 539 640	8 304 776	-2.75%
Service Charges - Water Revenue	6 584 080	(267 167)	6 316 913	-	-	6 316 913	1 778 357	-71.85%
Service Charges - Sanitation Revenue	1 043 215	265 678	1 308 893	-	-	1 308 893	1 380 944	5.50%
Service Charges - Refuse Revenue	1 090 620	100 000	1 190 620	-	-	1 190 620	1 210 268	1.65%
Rental of Facilities and Equipment	186 700	-	186 700	-	-	186 700	231 876	24.20%
Interest Earned - External Investments	200 000	-	200 000	-	-	200 000	266 499	33.25%
Interest Earned - Outstanding Debtors	1 996 446	1 680 000	3 676 446	-	-	3 676 446	3 764 290	2.39%
Dividends Received	-	-	-	-	-	-	-	-
Fines	42 120	35 000	77 120	-	-	77 120	68 126	-11.66%
Licences and Permits	71 820	10 300	82 120	-	-	82 120	41 239	-49.78%
Agency Services	179 010	-	179 010	-	-	179 010	174 197	-2.69%
Transfers Recognised - Operational	22 103 913	(1 000 000)	21 103 913	-	-	21 103 913	22 124 637	4.84%
Other Revenue	26 561	3 000	29 561	-	-	29 561	7 218 257	24318.17%
Gains on Disposal of PPE	-	-	-	-	-	-	-	-
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>47 605 855</b>	<b>555 180</b>	<b>48 161 035</b>	<b>-</b>	<b>-</b>	<b>48 161 035</b>	<b>51 874 028</b>	<b>7.71%</b>
<b>EXPENDITURE</b>								
Employee Related Costs	28 124 979	(1 131 346)	26 993 633	-	-	26 993 633	21 013 353	-22.15%
Remuneration of Councillors	3 240 594	(218 004)	3 022 590	-	-	3 022 590	2 593 917	-14.18%
Debt Impairment	4 896 486	-	4 896 486	-	-	4 896 486	7 849 756	57.11%
Depreciation and Asset Impairment	3 008 135	862 458	3 870 593	-	-	3 870 593	5 919 468	52.93%
Finance Charges	1 532 776	600 000	2 132 776	-	-	2 132 776	3 858 021	80.89%
Bulk Purchases	13 258 400	400 000	13 658 400	-	-	13 658 400	12 745 173	-6.69%
Other Materials	5 271 461	(2 351 052)	2 920 409	-	-	2 920 409	1 561 616	-46.53%
Contracted Services	4 252 032	645 604	4 897 636	-	-	4 897 636	3 301 177	-32.60%
Transfers and Grants	5 399 762	2 399 621	7 799 383	-	-	7 799 383	7 668 376	-1.68%
Other Expenditure	-	-	-	-	-	-	136 891	-
Loss on Disposal of PPE	-	-	-	-	-	-	-	-
<b>Total Expenditure</b>	<b>69 064 625</b>	<b>1 207 281</b>	<b>70 291 906</b>	<b>-</b>	<b>-</b>	<b>70 291 906</b>	<b>66 647 748</b>	<b>-5.18%</b>
<b>Surplus/(Deficit)</b>	<b>(21 478 770)</b>	<b>(652 101)</b>	<b>(22 130 871)</b>	<b>-</b>	<b>-</b>	<b>(22 130 871)</b>	<b>(14 773 720)</b>	<b>-33.24%</b>
Transfers Recognised - Capital	27 356 087	7 527 396	34 883 483	-	-	34 883 483	12 862 121	-63.13%
Contributions Recognised - Capital	-	-	-	-	-	-	-	-
Contributed Assets	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) after Capital Transfers &amp; Contributions</b>	<b>5 877 317</b>	<b>6 875 295</b>	<b>12 752 612</b>	<b>-</b>	<b>-</b>	<b>12 752 612</b>	<b>(1 911 599)</b>	<b>-114.99%</b>
Taxation	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) after Taxation</b>	<b>5 877 317</b>	<b>6 875 295</b>	<b>12 752 612</b>	<b>-</b>	<b>-</b>	<b>12 752 612</b>	<b>(1 911 599)</b>	<b>-114.99%</b>
Attributable to Minorities	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) Attributable to Municipality</b>	<b>5 877 317</b>	<b>6 875 295</b>	<b>12 752 612</b>	<b>-</b>	<b>-</b>	<b>12 752 612</b>	<b>(1 911 599)</b>	<b>-114.99%</b>
Share of Surplus/(Deficit) of Associate	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) for the year</b>	<b>5 877 317</b>	<b>6 875 295</b>	<b>12 752 612</b>	<b>-</b>	<b>-</b>	<b>12 752 612</b>	<b>(1 911 599)</b>	<b>-114.99%</b>

**KHAI-MA MUNICIPALITY**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2019**

	Notes	Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final Adjustment Budget	Shifting of Funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Council approved by-law)	Final Budget	Actual Outcome	Actual Outcome as % of Final Budget
		R	R	R	R	R	R	2019 R	%
CASH FLOW FROM OPERATING ACTIVITIES									
Receipts									
	Taxation	4 503 896	(287 817)	4 216 079	-	-	4 216 079	5 537 799	31.35%
	Service Charges	13 549 347	(2 723 182)	10 826 165	-	-	10 826 165	12 852 078	18.71%
	Other Revenue	462 159	(242 558)	219 601	-	-	219 601	2 800 475	1175.26%
	Government - Operating	22 103 913	-	22 103 913	-	-	22 103 913	18 873 783	-14.61%
	Government - Capital	27 356 087	6 527 396	33 883 483	-	-	33 883 483	14 362 000	-57.61%
	Interest	1 725 391	767 860	2 493 251	-	-	2 493 251	266 499	-89.31%
	Dividends	-	-	-	-	-	-	-	-
Payments									
	Suppliers and Employees	(43 204 669)	2 129 799	(41 074 900)	-	-	(41 074 900)	(38 898 923)	-5.30%
	Finance costs	-	-	-	-	-	-	(1 870 454)	-100.00%
	Transfers and Grants	-	-	-	-	-	-	-	-
46.2.7	Net Cash from/(used) Operating Activities	26 496 064	6 171 498	32 667 592	-	-	32 667 592	13 923 257	-57.38%
CASH FLOW FROM INVESTING ACTIVITIES									
Receipts									
	Proceeds on disposal of PPE	-	-	-	-	-	-	-	-
	Decrease/(Increase) in Non-Current Debtors	-	-	-	-	-	-	-	-
	Decrease/(Increase) in Other Non-Current Receivables	-	-	-	-	-	-	-	-
	Decrease/(Increase) in Non-Current Investments	-	-	-	-	-	-	-	-
Payments									
	Capital Assets	(27 506 087)	(6 577 899)	(34 083 986)	-	-	(34 083 986)	(13 669 224)	-59.90%
46.2.8	Net Cash from/(used) Investing Activities	(27 506 087)	(6 577 899)	(34 083 986)	-	-	(34 083 986)	(13 669 224)	-59.90%
CASH FLOW FROM FINANCING ACTIVITIES									
Receipts									
	Short Term Loans	-	-	-	-	-	-	-	-
	Borrowing long term/refinancing	-	-	-	-	-	-	-	-
	Increase/(Decrease) in Consumer Deposits	5 205	(1)	5 204	-	-	5 204	21 941	321.62%
Payments									
	Repayment of Borrowing	(28 688)	-	(28 688)	-	-	(28 688)	(28 688)	0.00%
46.2.9	Net Cash from/(used) Financing Activities	(23 483)	(1)	(23 484)	-	-	(23 484)	(6 748)	-71.27%
NET INCREASE/(DECREASE) IN CASH HELD									
	Cash and Cash Equivalents at the year begin:	(1 033 476)	(406 402)	(1 439 878)	-	-	(1 439 878)	247 285	-117.17%
		2 256 639	3	2 256 642	-	-	2 256 642	933 210	-58.65%
	Cash and Cash Equivalents at the year end:	1 223 163	(406 399)	816 764	-	-	816 764	1 180 494	44.53%

**KHAI MA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

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**1. ACCOUNTING PRINCIPLES AND POLICIES APPLIED IN THE FINANCIAL STATEMENTS**

**1.1. BASIS OF PREPARATION**

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

The annual financial statements have been prepared in accordance with the Finance Management Act (MFMA) and effective Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations and directives issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, have been developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 (Revised – March 2015) and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

A summary of the significant accounting policies, which have been consistently applied except where an exemption or transitional provision has been granted, are disclosed below.

Assets, liabilities, revenue and expenses have not been offset except when offsetting is permitted or required by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant notes to the annual financial statements.

In terms of Directive 7: "The Application of Deemed Cost on the Adoption of Standards of GRAP" issued by the Accounting Standards Board, the Municipality applied deemed cost to Property, Plant and Equipment, Investment Property and Intangible Assets where the acquisition cost of an asset could not be determined.

**1.2. PRESENTATION CURRENCY**

Amounts reflected in the financial statements are in South African Rand and at actual values. Financial values are rounded to the nearest one Rand. No foreign exchange transactions are included in the statements.

**1.3. GOING CONCERN ASSUMPTION**

These annual financial statements have been prepared on a going concern basis.

**1.4. COMPARATIVE INFORMATION**

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

The Municipal Regulations on Standard Chart of Accounts (mSCOA) came into effect on 1 July 2017. The mSCOA Charts are updated annually by National Treasury. The municipality has realigned items in the financial statements with the Item Segment of mSCOA Version 6.2, on which the municipality was required to transacted for periods after 1 July 2018. The result of this process was a reclassification and naming of items in the annual financial statements. The reclassification of 2018 audited amounts are set out in note 41 of the annual financial statements.

#### **1.5. AMENDED DISCLOSURE POLICY**

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the financial statements. The principal amendments to matters disclosed in the current financial statements include errors.

#### **1.6. MATERIALITY**

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total operating expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

#### **1.7. PRESENTATION OF BUDGET INFORMATION**

The presentation of budget information is prepared in accordance with GRAP 24 and guidelines issued by National Treasury. The comparison of budget and actual amounts are disclosed as separate additional financial statements, namely Statements of comparison of budget and actual amounts.

Budget information is presented on the accrual basis and is based on the same period as the actual amounts. The budget information is therefore on a comparable basis to the actual amounts.

The comparable information includes the following:

- the approved and final budget amounts;



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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

- actual amounts and final budget amounts;

Explanations for differences between the approved and final budget are included in the Notes to the Financial Statements.

Explanations for material differences between the final budget amounts and actual amounts are included the notes to the annual financial statements.

The disclosure of comparative information in respect of the previous period is not required in terms of GRAP 24.

**1.8. STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE**

GRAP 18 Segment Reporting is effective from 1 April 2015. The implementation of GRAP 18 is delayed, in terms of Directive 5, for municipalities for the 2018/19 financial year and municipalities are not required to apply or early adopt GRAP 18. The implementation date of GRAP 18 is 1 April 2020.

The following GRAP standards and Interpretations of the Standards of GRAP have been issued but are not yet effective and have not been early adopted by the municipality:

REFERENCE	TOPIC	EFFECTIVE DATE
GRAP 20 (Original – Jun 2011)	<p><b><u>Related Party Disclosure</u></b></p> <p>The objective of this Standard is to ensure that a Municipality's financial statements contains the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.</p> <p>The Municipality resolved to adopt some of the disclosure requirements as per GRAP 20. The information is therefore included in the financial statements.</p>	1 April 2019
GRAP 32 (Original – Aug 2013)	<p><b><u>Service Concession Arrangements: Grantor</u></b></p> <p>The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor and a public entity.</p> <p>No significant impact expected as any such transactions or events are expected in the foreseeable future.</p>	1 April 2019
GRAP 34 (Revised – April 2019)	<p><b><u>Separate Financial Statements</u></b></p> <p>The objective of this Standards is to prescribe the accounting and disclosure requirements in controlled entities, joint ventures and associates when an entity prepares separate financial statements.</p> <p>No significant impact expected as no such transactions or</p>	Unknown

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	events are expected in the foreseeable future.	
<b>GRAP 35</b> (Revised – April 2019)	<p><b><u>Consolidated Financial Statements</u></b></p> <p>The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	Unknown
<b>GRAP 36</b> (Revised – April 2019)	<p><b><u>Investments in Associates and Joint Ventures</u></b></p> <p>The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	Unknown
<b>GRAP 37</b> (Revised – April 2019)	<p><b><u>Joint Arrangements</u></b></p> <p>The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements)</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	Unknown
<b>GRAP 38</b> (Revised - April 2019)	<p><b><u>Disclosure of Interest in Other Entities</u></b></p> <p>The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:</p> <p>a) the nature of, and risks associated with, its interest in controlled entities unconsolidated controlled entities, joint arrangements and associates, and structure entities that are not consolidated; and</p> <p>b) the effects of those interests on its financial position, financial performance and cash flows.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	Unknown
<b>GRAP 104</b> (Revised – April 2019)	<p><b><u>Financial Instruments</u></b></p> <p>The objective of this Standard is to establish principles for recognising, measuring, presenting and disclosing financial instruments.</p> <p>The Municipality might need to revise the categories of financial instruments and the impairment model.</p>	Unknown

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

GRAP 108 (Original – Sept 2013)	<p><b><u>Statutory Receivables</u></b></p> <p>The objective of this Standard is to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.</p> <p>The Municipality has resolved to adopt the principles as set out in GRAP 108 to formulate its own accounting policy.</p>	1 April 2019
GRAP 109	<p><b><u>Accounting by Principles and Agents</u></b></p> <p>The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement.</p> <p>No significant impact is expected as the Municipality's current treatment is already in line with the Standards treatment.</p>	1 April 2019
GRAP 110	<p><b><u>Living and non-living resources</u></b></p> <p>The objective of this Standard is prescribing the recognition, measurement, presentation and disclosure requirements for living resources; and disclosure requirements for non-living resources.</p> <p>No significant impact expected as any such transactions or events are expected in the foreseeable future.</p>	1 April 2020
IGRAP 17	<p><b><u>Service Concession Arrangements where a grantor controls a significant residual interest in an Asset</u></b></p> <p>The Interpretation of the Standards is to provide guidance to the grantor where it has entered into a service concession arrangement, but only controls, through a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease.</p> <p>No such transactions or events are expected in the foreseeable future.</p>	1 April 2019
IGRAP 18	<p><b><u>Recognition and Derecognition of Land</u></b></p> <p>The Interpretation provide guidance on when an entity should recognise and derecognise land as an asset in its financial statements.</p> <p>The municipality needs to assess whether there are any changes to binding agreements that may impact its assessment of control.</p>	1 April 2019
IGRAP 19	<p><b><u>Liabilities to Pay Levies</u></b></p> <p>The Interpretation provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.</p>	1 April 2019

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

	No such transactions or events are expected in the foreseeable future.	
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These standards, amendments and interpretations will not have a significant impact on the Municipality once implemented.

## **1.9. HOUSING DEVELOPMENT FUND**

The Housing Development Fund was established in terms of the Housing Act, (Act No 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund.

Housing selling schemes both complete and in progress as at 1 April 1998 were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

## **1.10. RESERVES**

### **1.10.1. Capital Replacement Reserve (CRR)**

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, funds are transferred from the accumulated surplus / (deficit) to the CRR. The cash funds in the CRR can only be utilized for the purpose of purchasing/ construction of items of property, plant and equipment and may not be used for the maintenance of these items. The CRR is reduced and the accumulated surplus / (Deficit) are credited by a corresponding amount when the amounts in the CRR are utilized.

### **1.10.2. Revaluation Reserve**

The accounting for the Revaluation Reserve must be performed in accordance with the requirements of GRAP 17.

All increases in the carrying value of assets as a result of a revaluation are credited against the reserve, except to the extent that the increase reverses a revaluation decrease of the same asset previously recognised in the Statement of Financial Performance.

All decreases in the carrying value of assets as a result of a revaluation are debited against the reserve to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation reserve is realized as revaluated assets are depreciated, through a transfer from the Revaluation Reserve to the accumulated surplus /



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(deficit). On disposal, the net revaluation surplus is transferred to the accumulated surplus / (deficit) while gains or losses on disposal, based on revaluated amounts, are charged to the Statement of Financial Performance.

**1.11. LEASES**

**1.11.1. Municipality as Lessee**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Property, plant and equipment or intangible assets (excluding licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights) subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The Municipality recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

**1.11.2. Municipality as Lessor**

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined revenue and actual payments received will give rise to an asset. The Municipality shall recognise the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leases asset is diminished.

**1.12. BORROWING COST**

The Municipality recognises all borrowing costs as an expense in the period in which they are incurred.

**1.13. UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS**

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from the public.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the liability. If it is the Municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

**1.14. UNPAID CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS**

Unpaid conditional grants are assets in terms of the Framework that are separately disclosed in the Statement of Financial Position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from public.

The following provisions are set for the creation and utilisation of grant receivables:

- Unpaid conditional grants are recognised as an asset when the grant is receivable.

**1.15. UNSPENT PUBLIC CONTRIBUTIONS**



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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

Public contributions are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent public contributions are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent contributions from the public.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent public contributions are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the municipality until it is utilised.
- Interest earned on the investment is treated in accordance with the public contribution conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

#### **1.16. PROVISIONS**

Provisions are recognised when the Municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resource embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate of future outflows of resources. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability.

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

- (a) The municipality has a detailed formal plan for the restructuring identifying at least:
- the business or part of a business concerned;
  - the principal locations affected;
  - the location, function and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented.
- (b) The Municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date.

If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision is derecognised.

**1.17. EMPLOYEE BENEFITS**

***(a) Post-Retirement Medical Obligations***

The Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 60% as contribution and the remaining 40% are paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – Employee benefits (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are charged to the Statement of Financial Performance when employees have rendered the service entitling them to the contribution. The interest cost of the defined benefit obligation is recognised as finance cost in the Statement of Financial Performance, as it meets the definition of Interest Cost in GRAP 25. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the fair value of the obligation. Payments made by the Municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of

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Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

**(b) Long Service Awards**

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality's obligation under these plans is valued by independent qualified actuaries periodically and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as finance cost upon valuation, as it meets the definition of Interest Cost in GRAP 25. Defined benefit plans are post-employment plans other than defined contribution plans.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

**(c) Staff Leave**

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year end and also on the total remuneration package of the employee.

Accumulated leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

**(d) Staff Bonuses**

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year end for each employee.

**(e) Other Short-term Employee Benefits**

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.



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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

**1.18. PROPERTY, PLANT AND EQUIPMENT**

**1.18.1. Initial Recognition**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the entity, and the cost or fair value of the item can be measured reliably. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the assets acquired is initially measure at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Where an asset is acquired through a non-exchange transaction, any transaction cost incurred are recognised as part of the cost of the asset.

**1.18.2. Subsequent Measurement – Revaluation Model (Land and Buildings)**

Subsequent to initial recognition, Land and Buildings are carried at a re-valued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and any accumulated impairment losses.

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An increase in the carrying amount of an asset as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Statement of Financial Performance.

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in the Statement of Financial Performance, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

**1.18.3. Subsequent Measurement – Cost Model**

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

**1.18.4. Depreciation and Impairment**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated useful lives:

<u>Land and Buildings</u>	<u>Years</u>
Land	Indefinite
Buildings	10-50
<u>Infrastructure</u>	
Roads and Streets	3-50
Electricity Mains	12-50
Water Mains and Purification	4-60
Sewerage Mains & Purification	15-60
Security measures	14-20
<u>Community</u>	
Recreation Grounds	7-30
Fire, Safety and Emergency	4-10
Libraries	30



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Clinics and Hospitals	10-50
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**Finance lease assets**

Office equipment	3
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**Other**

Motor Vehicles	2-15
Office equipment	2-10
Furniture and fittings	2-32
Bins and containers	7
Plant and Equipment	1-30
Landfill sites	1-20
Emergency equipment	2-4
Computer equipment	2-7

Changes to the useful life of assets are reviewed if there is an indication that a change may have occurred in the estimated useful life. If the expectation differ from the previous estimates, the change is accounted for in accordance with GRAP 3 either prospectively as a change in the accounting policy or retrospectively as a prior period error depending on the specific circumstances.

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment charged to the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of impairment is recognised in the Statement of Financial Performance.

**1.18.5. De-recognition**

Items of property, plant and equipment are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

**1.18.6. Land and Buildings and Other Assets – application of deemed cost (Directive 7)**

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. For Land and Buildings, the fair value



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as determined by a valuator was used in order to determine the deemed cost as on 1 July 2008. For Other Assets the depreciation cost method was used to establish the deemed cost as on 1 July 2008.

## **1.19. INTANGIBLE ASSETS**

### **1.19.1. Initial Recognition**

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset meets the identifiability criterion in the definition of an intangible asset when it:

- is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

The Municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project;
- it is probable that the municipality will receive future economic benefits or service potential; and
- the Municipality can measure reliably the expenditure attributable to the intangible asset during its development.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

### **1.19.2. Subsequent Measurement – Cost Model**

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Intangible assets are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

**1.19.3. Amortisation and Impairment**

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. Amortisation of an asset begins when it is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are amortised separately. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual amortisation rates are based on the following estimated useful lives:

<u>Intangible Assets</u>	<u>Years</u>
Computer Software	3-12

Changes to the useful life of assets are reviewed if there is an indication that a change may have occurred in the estimated useful life. If the expectation differ from the previous estimates, the change is accounted for in accordance with GRAP 3 either prospectively as a change in the accounting policy or retrospectively as a prior period error depending on the specific circumstances.

**1.19.4. De-recognition**

Intangible assets are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

**1.19.5. Application of deemed cost (Directive 7)**

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. For Intangible Assets the depreciation cost method was used to establish the deemed cost as on 1 July 2008.

**1.20. INVESTMENT PROPERTY**

**1.20.1. Initial Recognition**

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Investment property shall be recognised as an asset when and only when:

- it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity, and
- the cost or fair value of the investment property can be measured reliably.

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations. Property with a currently undetermined use is also classified as investment property.

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is measured at cost.

Where an asset is acquired through a non-exchange transaction, any transaction cost incurred are recognised as part of the cost of the asset.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

**1.20.2. Subsequent Measurement – Cost Model**

Subsequent to initial recognition, items of investment property are measured at cost less accumulated depreciation and accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

**1.20.3. Depreciation and Impairment – Cost Model**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

<u>Investment Property</u>	<u>Years</u>
Buildings	10-50

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Changes to the useful life of assets are reviewed if there is an indication that a change may have occurred in the estimated useful life. If the expectation differ from the previous estimates, the change is accounted for in accordance with GRAP 3 either prospectively as a change in the accounting policy or retrospectively as a prior period error depending on the specific circumstances.

**1.20.4. De-recognition**

Investment property is derecognised when it is disposed or when there are no further economic benefits expected from the use of the investment property. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

**1.20.5. Application of deemed cost (Directive 7)**

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2008.

**1.21. IMPAIRMENT OF NON-FINANCIAL ASSETS**

**1.21.1. Cash generating assets**

Cash-generating assets are assets held with the primary objective of generating a commercial return.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the municipality estimates the asset's recoverable amount.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

- (a) External sources of information
- During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;
  - Significant changes with an adverse effect on the Municipality have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Municipality operates or in the market to which an asset is dedicated;
  - Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.



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(b) Internal sources of information

- Evidence is available of obsolescence or physical damage of an asset;
- Significant changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite;
- Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

The re-designation of assets from a cash-generating asset to a non-cash generating asset or from a non-cash-generating asset to a cash-generating asset shall only occur when there is clear evidence that such a re-designation is appropriate. A re-designation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the indication for an impairment test or a reversal of an impairment loss arises from, as a minimum, the indications listed above.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Municipality estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance.

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**1.21.2. Non-cash-generating assets**

Non-cash-generating assets are assets other than cash-generating assets.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable service amount.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

(a) External sources of information

- Cessation, or near cessation, of the demand or need for services provided by the asset;
- Significant long-term changes with an adverse effect on the Municipality have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the Municipality operates.

(b) Internal sources of information

- Evidence is available of physical damage of an asset;
- Significant long-term changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date;
- A decision to halt the construction of the asset before it is complete or in a usable condition;
- Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss recorded in the Statement of Financial Performance.

The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following approaches:

- *depreciation replacement cost approach* - the present value of the remaining service potential of an asset is determined as the depreciated

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replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

- *restoration cost approach* - the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.
- *service unit approach* - the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

An impairment loss is recognised immediately in surplus or deficit, unless the asset is carried at a revalued amount in accordance with another Standard of GRAP. Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that Standard of GRAP.

The Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the Municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable service amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods. Such a reversal of an impairment loss is recognised in the Statement of Financial Performance.

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**1.22. NON-CURRENT INVESTMENTS**

Financial instruments, which include, investments in municipal entities and fixed deposits invested in registered commercial banks, are stated at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

The carrying amounts of such investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

**1.23. INVENTORIES**

**1.23.1. Initial Recognition**

Inventories comprise of current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Municipality, and the cost of the inventories can be measured reliably. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus non-recoverable taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Water inventory is being measured by multiplying the cost per kilo litre of purified water by the amount of water in storage.

Where inventory is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

**1.23.2. Subsequent Measurement**

Inventories, consisting of consumable stores, materials and supplies and water are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current



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replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

In general, the basis of allocating cost to inventory items is the weighted average method.

Water inventory is measured annually at the reporting date by way of dip readings.

#### **1.24. FINANCIAL INSTRUMENTS**

Financial instruments recognised on the Statement of Financial Position include receivables (both from exchange transactions and non-exchange transactions), cash and cash equivalents, annuity loans and payables (both from exchange and non-exchange transactions). The future utilization of Unspent Conditional Grants is evaluated in order to determine whether it is treated as financial instruments.

##### **1.24.1. Initial Recognition**

Financial instruments are initially recognised when the Municipality becomes a party to the contractual provisions of the instrument at fair value plus, in the case of a financial asset or financial liability not at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. If finance charges in respect of financial assets and financial liabilities are significantly different from similar charges usually obtained in an open market transaction, adjusted for the specific risks of the Municipality, such differences are immediately recognised in the period it occurs, and the unamortised portion adjusted over the period of the loan transactions.

##### **1.24.2. Subsequent Measurement**

Financial Assets are categorised according to their nature as either financial assets at fair value, financial assets at amortised cost or financial assets at cost. Financial Liabilities are categorised as either at fair value, financial liabilities at cost or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation.

###### **1.24.2.1. Receivables**

Receivables are classified as financial assets at amortised cost and are subsequently measured amortised cost using the effective interest rate method.

For amounts due from debtors carried at amortised cost, the Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Municipality determines that

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no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the Statement of Financial Performance.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate, if material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

**1.24.2.2. *Payables and Annuity Loans***

Financial liabilities consist of trade and other payables and annuity loans. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost using an effective interest rate, which is the initial carrying amount, less repayments, plus interest.

**1.24.2.3. *Cash and Cash Equivalents***

Cash includes cash on hand (including petty cash) and cash with banks. Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, highly liquid deposits and net of bank overdrafts. The Municipality categorises cash and cash equivalents as financial assets carried at amortised cost.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of

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bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

**1.24.2.4. *Non-Current Investments***

Investments which include fixed deposits invested in registered commercial banks, are stated at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is recognised in the Statement of Financial Performance.

The carrying amounts of such investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

**1.24.3. *De-recognition***

**1.24.3.1. *Financial Assets***

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Municipality has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Municipality has transferred substantially all the risks and rewards of the asset, or (b) the Municipality has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Municipality has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the old asset is derecognised and a new asset is recognised to the extent of the Municipality's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Municipality could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Municipality's continuing involvement is the amount of the transferred asset that the Municipality may repurchase, except that in the

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case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

**1.24.3.2. Financial Liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Financial Performance.

**1.24.4. Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**1.25. STATUTORY RECEIVABLES**

Statutory receivables arise from legislation, supporting regulations, or similar means and require settlement by another entity in cash or another financial asset. Statutory receivables can arise from both exchange and non-exchange transactions.

**1.25.1. Initial Recognition**

Statutory receivables are recognised when the related revenue is recognised or when the receivable meets the definition of an asset.

**1.25.2. Subsequent Measurement**

The Municipality initially measures the statutory receivables at their transaction amount. The Municipality measure statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to reflect any:

- (a) interest or other charges that may have accrued on the receivable;
- (b) impairment losses; and
- (c) amounts derecognised.

The Municipality assesses at each reporting date whether there is any indication that a statutory receivable may be impaired. If there is an indication that a statutory receivable may be impaired, the Municipality measures the



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impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable is reduced, through the use of an allowance account. The amount of the loss is recognised in the Statement of Financial Performance. In estimating the future cash flows, the Municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the Municipality discounts the estimated future cash flows using a rate that reflects the current risk-free rate and any risks specific to the statutory receivable for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows. Any previously recognised impairment loss is adjusted by adjusting the allowance account. The amount of any adjustment is recognised in the Statement of Financial Performance.

**1.25.3. Derecognition**

The Municipality derecognises a statutory receivable when:

- (a) the rights to the cash flows from the receivable are settled, expire or are waived;
- (b) the Municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- (c) the Municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the Municipality:
  - i. derecognise the receivable; and
  - ii. recognise separately any rights and obligations created or retained in the transfer.

**1.26. REVENUE**

**1.26.1. Revenue from Non-Exchange Transactions**

Revenue from non-exchange transactions refers to transactions where the Municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

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Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. At the time of initial recognition the full amount of revenue is recognised. If the Municipality does not enforce its obligation to collect the revenue, this would be considered as a subsequent event. Collection charges are recognised when such amounts are legally enforceable. Rebates and discounts are offset against the related revenue, in terms of IGRAP 1, as there is no intention of collecting this revenue.

Fine Revenue constitutes both spot fines and summonses. Fine revenue is recognised when the spot fine or summons is issued. In cases where fines and summonses are issued by another government institute, revenue will only be recognised by the Municipality when the receivable meets the definition of an asset.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the Municipality. Where public contributions have been received but the Municipality has not met the related conditions, it is recognised as an unspent public contribution (liability).

Revenue from third parties i.e. insurance payments for assets impaired, are recognised when it can be measured reliably and is not being offset against the related expenses of repairs or renewals of the impaired assets.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the Municipality.

All unclaimed deposits are initially recognised as a liability until 12 months expires, when all unclaimed deposits into the Municipality's bank account will be treated as revenue as historical patterns have indicated that minimal unidentified deposits are reclaimed after a period of twelve months. This assessment is performed annually at 30 June. Therefore, the substance of these transactions indicates that even though the prescription period for unclaimed monies is legally three years, it is reasonable to recognise all unclaimed monies older than twelve months as revenue. Although unclaimed deposits are recognised as revenue after 12 months, the Municipality still keep record of these unclaimed deposits for three years in the event that a party should submit a claim after 12 months.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the

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Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

Revenue shall be measured at the fair value of the consideration received or receivable.

When, as a result of a non-exchange transaction, a Municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the present obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability will be recognised as revenue.

Services in-kind that are significant to the Municipality's operations are recognised as assets and the related revenue when:

- it is probable that the future economic benefits or service potential will flow to the Municipality; and
- the fair value of the assets can be measured reliably.

If the services in-kind are not significant to the Municipality's operations or does not satisfy the above-mentioned criteria, the Municipality only disclose the nature and type of services in-kind received during the reporting period. When the criteria for recognition is satisfied, services in-kind are measured on initial recognition at their fair value as at the date of acquisition. Services in-kind include services provided by individuals to the Municipality and the right to use assets in a non-exchange transaction. These services meet the definition of an asset, because the Municipality controls the resource from which future economic benefits or service potential is expected to flow to the Municipality. The assets are immediately consumed and a transaction of equal value is also recognised to reflect the consumption of these services in-kind, resulting in a decrease of the asset and an increase in an expense. The Municipality therefore recognises an expense and related revenue for the consumption of services in-kind.

**1.26.2. Revenue from Exchange Transactions**

Revenue from exchange transactions refers to revenue that accrued to the Municipality directly in return for services rendered or goods sold, the value of which approximates the consideration received or receivable.

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- The Municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;

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- The Municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality;
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

At the time of initial recognition, the full amount of revenue is recognised where the Municipality has an enforceable legal obligation to collect, unless the individual collectability is considered to be improbable. If the Municipality does not successfully enforce its obligation to collect the revenue this would be considered a subsequent event.

Service charges relating to electricity and water are based on consumption and a basic charge as per Council resolution. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. It is estimated that pre-paid electricity is consumed within 5 to 10 days after date of purchase. The pre-paid electricity sold, but not consumed yet at year-end is disclosed as under Payables from Exchange Transactions in the Statement of Financial Position.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage and are levied monthly based on the recorded number of refuse points per property.

Service charges relating to sanitation (sewerage) are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage. In the case of residential property, a fixed monthly tariff is levied and in the case of commercial property a tariff is levied based on the number of sewerage connection on the property. Service charges based on a basic charge as per Council resolution.

Interest revenue is recognised using the effective interest rate method.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.



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Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

Revenue is measured at the fair value of the consideration received or receivable.

The amount of revenue arising on a transaction is usually determined by agreement between the entity and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

**1.27. TRANSFER OF FUNCTIONS (Municipality as acquirer)**

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A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving a Municipality's objectives, either by providing economic benefits or service potential.

A transfer of functions is the reorganisation and/or the re-allocation of functions between Municipalities by transferring functions between Municipalities or into another entity.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the Municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the Municipality or from other rights and obligations.

The Municipality accounts for each transfer of functions between entities not under common control by applying the acquisition method. Applying the acquisition method requires:

- (a) identifying the acquirer (Municipality);
- (b) determining the acquisition date;
- (c) recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and
- (d) recognising the difference between (c) and the consideration transferred to the seller.

As of the acquisition date, the Municipality recognises the identifiable assets acquired and the liabilities assumed. The identifiable assets acquired and liabilities assumed meets the definitions of assets and liabilities in the *Framework for the Preparation and Presentation of Financial Statements* and the recognition criteria in the applicable Standards of GRAP at the acquisition date. In addition, the identifiable assets acquired and liabilities assumed are part of what the Municipality and the acquiree (or its former owners) agreed in the binding arrangement.

The Municipality measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

The Municipality subsequently measures and account for assets acquired and liabilities assumed in accordance with other applicable Standards of GRAP.

## **1.28. RELATED PARTIES**

The Municipality resolved to adopt the disclosure requirements as per GRAP 20 – "Related Party Disclosures".

A related party is a person or an entity:

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- with the ability to control or jointly control the other party,
- or exercise significant influence over the other party, or vice versa,
- or an entity that is subject to common control, or joint control.

The following are regarded as related parties of the Municipality:

- (a) A person or a close member of that person's family is related to the Municipality if that person:
- has control or joint control over the Municipality.
  - has significant influence over the Municipalities. Significant influence is the power to participate in the financial and operating policy decisions of the Municipality.
  - is a member of the management of the Municipality or its controlling entity.
- (b) An entity is related to the Municipality if any of the following conditions apply:
- the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others).
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member).
  - both entities are joint ventures of the same third party.
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - the entity is a post-employment benefit plan for the benefit of employees of either the Municipality or an entity related to the Municipality. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity.
  - the entity is controlled or jointly controlled by a person identified in (a).
  - a person identified in (a) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

Close members of the family of a person are those family members who may be expected to influence or be influenced by that person in their dealings with the Municipality. A person is considered to be a close member of the family of another person if they:

- (a) are married or live together in a relationship similar to a marriage; or
- (b) are separated by no more than two degrees of natural or legal consanguinity or affinity.

Management (formerly known as "Key Management") includes all persons having the authority and responsibility for planning, directing and controlling the activities of the Municipality, including:

- (a) all members of the governing body of the Municipality;

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- (b) a member of the governing body of an economic entity who has the authority and responsibility for planning, directing and controlling the activities of the Municipality;
- (c) any key advisors of a member, or sub-committees, of the governing body who has the authority and responsibility for planning, directing and controlling the activities of the Municipality; and
- (d) the senior management team of the Municipality, including the chief executive officer or permanent head of the Municipality, unless already included in (a).

Management personnel include:

- (a) All directors or members of the governing body of the Municipality, being the Executive Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee;
- (b) Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting Municipality being the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Remuneration of management includes remuneration derived for services provided to the Municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Municipality for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Municipality.

The Municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm's length and not on normal commercial terms are disclosed.

#### **1.29. UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in a form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### **1.30. IRREGULAR EXPENDITURE**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), the Public Office Bearers Act, and (Act. No. 20 of 1998) or is in



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contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**1.31. FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**1.32. CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent liability could also be a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability.

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

Management judgement is required when recognising and measuring contingent liabilities.

**1.33. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

In the process of applying the Municipality's accounting policy, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

***Post-retirement medical obligations and Long service awards***

The cost of post-retirement medical obligations and long service awards are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Major assumptions used are disclosed in note 12 of the Annual Financial Statements. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

***Impairment of Receivables***

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The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

***Property, Plant and Equipment***

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and residual values of Property, Plant and Equipment:

- The useful life of movable assets was determined using the age of similar assets available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives.
- Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets.
- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings. The Municipality also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings.

For deemed cost applied to other assets as per adoption of Directive 7, management used the depreciated replacement cost method which was based on assumptions about the remaining duration of the assets.

The cost for depreciated replacement cost was determined by using either one of the following:

- Cost of items with a similar nature currently in the Municipality's asset register;
- Cost of items with a similar nature in other municipalities' asset registers, given that the other municipality has the same geographical setting as the Municipality and that the other municipality's asset register is considered to be accurate;
- Cost as supplied by suppliers.

For deemed cost applied to land and buildings as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

***Intangible Assets***

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The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

Reference was made to intangibles used within the Municipality and other municipalities to determine the useful life of the assets.

For deemed cost applied to intangible assets as per adoption of Directive 7, management used the depreciation cost method which was based on assumptions about the remaining duration of the assets.

***Investment Property***

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and valuation of investment property:

- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings.
- The Municipality also consulted with professional engineers and qualified valuers to support the useful life of buildings.

For deemed cost applied to Investment Property as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

***Provisions and Contingent Liabilities***

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

***Provision for Landfill Sites***

The provision for rehabilitation of the landfill site is recognised as and when the environmental liability arises. The provision is calculated by a qualified environmental engineer. The provision represents the best estimate to rehabilitate

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the landfill site at year end. To the extent that the obligations relate to an asset, it is capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset is charged to the Statement of Financial Performance.

Management referred to the following when making assumptions regarding provisions:

- Professional engineers were utilised to determine the cost of rehabilitation of landfill sites as well as the remaining useful life of each specific landfill site.
- Interest rates (investment rate) linked to prime was used to calculate the effect of time value of money.

***Provision for Staff leave***

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave or when employment is terminated.

***Pre-paid electricity estimation***

Pre-paid electricity is only recognised as income once the electricity is consumed. The pre-paid electricity balance (included under payables) represents the best estimate of electricity sold at year end, which is still unused. The average pre-paid electricity sold per day during the year under review is used and the estimate is calculated using between 5 and 10 days' worth of unused electricity.

***Componentisation of Infrastructure assets***

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market price of each component, depreciated for age and condition and recalculated to cost at the acquisition date if known or to the date of initially adopting the standards of GRAP.

***Revenue Recognition***

Accounting Policy on Revenue from Non-Exchange Transactions and Accounting Policy on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions. Specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

**1.34. TAXES – VALUE ADDED TAX**



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Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

**1.35. CAPITAL COMMITMENTS**

Capital commitments disclosed in the financial statements represents the balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

**1.36. EVENTS AFTER REPORTING DATE**

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

If non-adjusting events after the reporting date are material, the Municipality discloses the nature and an estimate of the financial effect.